



June 1, 2010

VIA HAND DELIVERY

Honorable Kimberly D. Bose, Secretary
Honorable Nathaniel J. Davis, Sr., Deputy Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: *ISO New England Inc. and New England Power Pool,*
Docket No. ER10-750-000; Compliance Filing of ISO New England Inc.

Dear Secretary Bose and Deputy Secretary Davis:

In response to the compliance requirements set forth in the letter order issued by the Federal Energy Regulatory Commission (the "Commission") on April 16, 2010 in Docket No. ER10-750-000 (the "April 16 Order"), and pursuant to Rule 1907 of the Commission's Rules of Practice and Procedure, ISO New England Inc. (the "ISO") hereby submits an original and five copies of this compliance filing, which clarifies the provisions in the Forward Capacity Market ("FCM") rules addressing the evaluation of de-list bids submitted by resources at stations with common costs. The New England Power Pool Participants Committee ("NEPOOL" and, together with the ISO, the "Filing Parties") supports this compliance filing.¹

I. COMMUNICATIONS

All correspondence and communications in this proceeding should be addressed to the undersigned for the ISO and NEPOOL as follows:

To the ISO:

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To NEPOOL:

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NEPOOL Participants Committee
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¹ NEPOOL's support for this filing is based on the Participants Committee's delegation of authority to the Markets Committee as discussed in Section IV (Stakeholder Process) of this filing letter.

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II. BACKGROUND

On February 16, 2010, the Filing Parties filed in this docket revisions to the rules governing the FCM that address the treatment of de-list bids submitted by resources at stations with common costs (the “February 16 Filing”). The February 16 Filing was made in response to compliance requirements set forth in a previous Commission order issued on August 19, 2009.³ As fully described in the February 16 Filing, the August 19 Order was issued in response to Dominion’s⁴ protest of the ISO’s Informational Filing for Qualification in the FCM for the 2012-2013 Capacity Commitment Period.⁵ In that Informational Filing, among other things, the ISO rejected the Static De-List Bids submitted by the four resources at Dominion’s Salem Harbor Station.⁶ In addition to requiring that the ISO and Dominion submit statements explaining and providing the cost support and calculations for, *inter alia*, their respective allocation of the common costs across the four Salem Harbor resources, in the August 19 Order, the Commission

² Due to the joint nature of this compliance filing, the Filing Parties respectfully request a waiver of Section 385.203 of the Commission’s regulations to allow the inclusion of more than two persons on the service list in this proceeding.

³ *ISO New England Inc.*, 128 FERC ¶ 61,167 at P 31 (2009) (“August 19 Order”).

⁴ The Dominion Companies include Dominion Resources Services, Inc., on behalf of Dominion Energy Marketing, Inc., Dominion Energy New England, Inc., and Dominion Energy Salem Harbor, LLC (collectively, “Dominion”).

⁵ See February 16 Filing, Filing Letter at p. 4.

⁶ *Id.*

directed the ISO to work with its stakeholders to develop tariff provisions that explicitly address the ISO's treatment of similar common cost situations prior to the next Forward Capacity Auction.⁷ After that work was complete, the Filing Parties submitted the February 16 Filing.

In the April 16 Order, the Commission found that certain provisions contained in the February 16 Filing were ambiguous and likely to lead to confusion.⁸ Accordingly, the Commission accepted the proposed Tariff revisions, subject to conditions, and directed the ISO to submit a compliance filing within 45 days of the date of the April 16 Order.⁹ As described below, the instant filing complies with the Commission's April 16 Order.

III. DESCRIPTION OF THE COMPLIANCE FILING

The Commission noted that Section III.13.1.2.3.1.6.2, which describes how the Internal Market Monitor should allocate common costs among the affected resources at a station, does not specify what time period would be used in assessing the historical megawatt hour production for a particular asset.¹⁰ The Commission further noted that it is unclear how the resulting cost allocation would be used in developing the specific level of default de-list bids for resources at a station with common costs.¹¹ Accordingly, the Commission directed the ISO to clarify what historical period would be used to determine the historical megawatt hour production for a particular asset and to explain and clarify in revised tariff sheets how the resulting cost allocation would be used in developing the specific levels of default de-list bids.¹² However, the Commission also indicated that the ISO could, as an alternative to the requirements described above, consider whether Section III.13.1.2.3.1.6.2 is necessary at all and, if not, whether it could be deleted.¹³ The ISO has determined that the Section is unnecessary and, therefore, in compliance with the April 16 Order, it is being deleted.¹⁴

⁷ August 19 Order at PP 27, 31.

⁸ April 16 Order at P3.

⁹ *Id.* at P 6.

¹⁰ *Id.* at P 4.

¹¹ *Id.*

¹² *Id.*

¹³ April 16 Order at n.3.

¹⁴ As the Commission correctly pointed out in the April 16 Order, Section III.13.1.2.3.1.6.2 established the preferred de-list order of assets but, because common costs are not avoided by de-listing any individual asset, an efficient preferred order for de-listing assets need not include an allocation of common costs. *Id.*

Section III.13.1.2.3.1.6.3 sets forth the criteria that the Internal Market Monitor will use to review each de-list bid for stations with common costs and requires that the bids be monotonically decreasing. In the April 16 Order, the Commission directed the ISO to clarify whether the de-list bids must be monotonically non-increasing, as opposed to monotonically decreasing.¹⁵ In addition, the April 16 Order requires the ISO to explain and clarify the methodology identified in the February 5, 2010 presentation to the Participants Committee in the ISO Tariff.¹⁶

In compliance with these directives, the ISO has clarified Section III.13.1.2.3.1.6.3 by adding a description of the methodology included in the February 5, 2010 presentation to the Participants Committee. Generally, the methodology establishes that the Internal Market Monitor will: (i) calculate the average Asset-Specific Going Forward Costs of each asset at the station; (ii) establish the preferred de-list order;¹⁷ (iii) calculate and assign to each asset a station cost that is equal to the average cost of the assets remaining at the Station, including Station Going Forward Common Costs, assuming the successive de-listing of each individual asset in preferred de-list order; and (iv) calculate a set of composite costs that is equal to the maximum of the cost associated with each asset as calculated in (i) and (iii) above. Section III.13.1.2.3.1.6.3 has been further revised to state that the Internal Market Monitor will adjust the set of composite costs to ensure a monotonically non-increasing set of bids.¹⁸

IV. STAKEHOLDER PROCESS

Due to the timing of the April 16 Order and NEPOOL meeting schedules, the Markets Committee was not able to consider the compliance filing or make a recommendation with respect to the ISO's proposed changes prior to the May 7, 2010 Participants Committee meeting. Following a presentation at that meeting concerning the compliance changes proposed by the

¹⁵ The Commission noted that, in the context of bidding, “monotonically decreasing” means that as the quantity offered increases, the offer price is always decreasing; the offer price would not stay the same or increase. By contrast, “monotonically non-increasing” means that as the quantity offered increases, the offer price could either decrease or stay the same, but the offer price could not increase. April 16 Order at n.5.

¹⁶ *Id.* at P 5.

¹⁷ The preferred de-list order is established by ordering the assets from highest average Asset-Specific Going Forward Costs to lowest average Asset-Specific Going Forward Costs.

¹⁸ To ensure that the bids are monotonically non-increasing, any asset with a composite cost that is greater than the composite cost of the asset with the lowest composite cost and that has average Asset-Specific Going Forward Costs that are less than its composite costs will have its composite cost set equal to that of the asset with the lowest composite cost. The bids of the asset with the lowest composite cost and of any assets whose composite costs are so adjusted will be considered a single non-rationable bid for use in the Forward Capacity Auction.

ISO, the Participants Committee voted unanimously to delegate its authority to the Markets Committee under Section 6.1 of the Second Restated NEPOOL Agreement and Section 8.1.3(c) of the Participants Agreement to support this compliance filing on its behalf. Pursuant to that delegated authority, the Markets Committee, at its May 11-12, 2010 meeting, considered and voted to support the compliance filing.¹⁹

V. REQUESTED EFFECTIVE DATE

The Filing Parties request that the Commission accept the compliance changes to become effective on April 18, 2010. This is the same effective date as for the rule changes already filed with and accepted by the Commission in this proceeding.

VI. ADDITIONAL SUPPORTING INFORMATION

Section 35.13 of the Commission's regulations generally requires public utilities to file certain cost and other information related to an examination of traditional cost-of-service rates.²⁰ However, the revisions contained in the instant filing are not a traditional "rate" and the Filing Parties are not traditional investor-owned utilities. In light of these circumstances, the Filing Parties submit the following additional information in substantial compliance with relevant provisions of Section 35.13, and request a waiver of Section 35.13 of the Commission's regulations to the extent the content or form deviates from the specific technical requirements of the regulations.

35.13(b)(1) - Materials included herewith are as follows:

- ◆ This transmittal letter;
- ◆ Blacklined Tariff Sheets reflecting the revisions as discussed in this compliance filing (Attachment 1);
- ◆ Clean Revised Tariff Sheets reflecting the revisions as discussed in this compliance filing (Attachment 2); and
- ◆ List of governors, utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont, and other entities, to which a copy of this filing has been e-mailed (Attachment 3).

¹⁹ Based on a show of hands, the motion to support the compliance filing passed (4 abstentions and 1 opposition within the Generation Sector and 5 abstentions and 1 opposition within the Supplier Sector were noted).

²⁰ 18 C.F.R. § 35.13 (2009).

35.13(b)(2) - The Filing Parties request that the revisions in this compliance filing become effective April 18, 2010, the effective date granted in the Commission's April 16 Order.

35.13(b)(3) - Pursuant to Section 17.11(e) of the Participants Agreement, Governance Participants are being served electronically rather than by paper copy. The names and addresses of the Governance Participants are posted on the ISO's website at http://www.iso-ne.com/regulatory/ferc/nepool/gov_prtcpts_eserved.pdf. A copy of this transmittal letter and the accompanying materials have also been e-mailed to the governors and electric utility regulatory agencies for the six New England states that comprise the New England Control Area, the New England Conference of Public Utility Commissioners, Inc., and to the New England States Committee on Electricity. Their names and addresses are shown in Attachment 3. In accordance with Commission rules and practice, there is no need for the Governance Participants or the entities identified on Attachment 3 to be included on the Commission's official service list in the captioned proceeding unless such entities become intervenors in this proceeding.

35.13(b)(4) - A description of the materials submitted pursuant to this filing is contained in Section VI of this transmittal letter.

35.13(b)(5) - The reasons for this filing are discussed in Section III of this transmittal letter.

35.13(b)(6) - The ISO's approval of these revisions is evidenced by this compliance filing. With respect to NEPOOL's approval, as noted in Section IV of this transmittal letter, these changes reflect the results of the Participant Processes required by the Participants Agreement and have been approved by a vote of the Markets Committee with delegated authority from the Participants Committee.

35.13(b)(7) - The Filing Parties do not have knowledge of any relevant expenses or costs of service that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

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VII. CONCLUSION

The Filing Parties request that the Commission accept the instant revisions as submitted, without modification or condition. Please acknowledge receipt of the foregoing by date-stamping the enclosed extra copies of this filing and returning them to the courier delivering this filing.

Respectfully submitted,

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ATTACHMENT 1

Blacklined Tariff Sheets

III.13.1.2.3.1.6.2. ~~[Reserved.] Allocation of Common Costs.~~ ~~The Internal Market Monitor will allocate the Station Going Forward Common Costs to each of the Station's assets using the historical megawatt hour production for each asset as the default allocation basis. Should a Market Participant prefer to use a different allocation basis for some or all of the Station Going Forward Common Costs, it must demonstrate to the Internal Market Monitor that the alternative allocation basis is more appropriate than the default allocation basis. The Internal Market Monitor will calculate the amount of Common Costs allocable to each Existing Generating Capacity Resource associated with a Station by adding the Station Going Forward Common Costs allocated to each asset comprising the Existing Generating Capacity Resource.~~

III.13.1.2.3.1.6.3. Internal Market Monitor Review. The Internal Market Monitor will review each Static De-List Bid and Permanent De-List Bid from an Existing Generating Capacity Resource that is associated with a Station having Common Costs pursuant to the following methodology:

(i) Calculate the average Asset-Specific Going Forward Costs of each asset at the Station.

(ii) Order the assets from highest average Asset-Specific Going Forward Costs to lowest average Asset-Specific Going

Forward Costs; this is the preferred de-list order.

(iii) Calculate and assign to each asset a station cost that is equal to the average cost of the assets remaining at the Station, including Station Going Forward Common Costs, assuming the successive de-listing of each individual asset in preferred de-list order.

(iv) Calculate a set of composite costs that is equal to the maximum of the cost associated with each asset as calculated in (i) and (iii) above. to verify that the bid meets the following conditions: (i) the bid must be monotonically decreasing; (ii) assets that are uneconomic on the basis of their Asset-Specific Going Forward Costs (i.e., do not benefit from station

The Internal Market Monitor will adjust the set of composite costs to ensure a monotonically non-increasing set of bids as follows: any asset with a composite cost that is greater than the composite cost of the asset with the lowest composite cost and that has average Asset-Specific Going Forward

Costs that are less than its composite costs will have its composite cost set equal to that of the asset with the lowest composite cost. The bids of the asset with the lowest composite cost and of any assets whose composite costs are so adjusted will be considered a single non-rationable bid for use in the Forward Capacity Auction.

~~economies of scale) must be allowed to bid their Asset Specific Going Forward Costs; and (iii) the bid must be sufficient to recover the Asset Specific Going Forward Costs of all assets remaining in the market and the full amount of Station Going Forward Common Costs.~~

The Internal Market Monitor will compare a de-list bid developed using the adjusted composite costs to the de-list bid submitted by the Existing Generating Capacity Resource that is associated with a Station having Common Costs. If the Internal Market Monitor determines that the submitted de-list bid is less than or equal to the bid developed using the adjusted composite cost~~consistent with the conditions listed above~~, then the bid shall be entered into the Forward Capacity Auction as described in Section III.13.2.3.2(b). If the Internal Market Monitor determines that the submitted de-list bid is greater than the bid developed using the adjusted composite costs~~does not satisfy the conditions listed above~~ or is not consistent with the submitted supporting cost data, then the Internal Market Monitor will reject the bid as described in Section III.13.1.2.3.2.1.1.

ATTACHMENT 2

Clean Tariff Sheets

III.13.1.2.3.1.6.2. [Reserved.]

III.13.1.2.3.1.6.3. Internal Market

Monitor Review. The Internal Market Monitor will review each Static De-List Bid and Permanent De-List Bid from an Existing Generating Capacity Resource that is associated with a Station having Common Costs pursuant to the following methodology:

- (i) Calculate the average Asset-Specific Going Forward Costs of each asset at the Station.
- (ii) Order the assets from highest average Asset-Specific Going Forward Costs to lowest average Asset-Specific Going Forward Costs; this is the preferred de-list order.
- (iii) Calculate and assign to each asset a station cost that is equal to the average cost of the assets remaining at the Station, including Station Going Forward Common Costs, assuming the successive de-listing of each individual asset in preferred de-list order.
- (iv) Calculate a set of composite costs that is equal to the maximum of the cost associated with each asset as calculated in (i) and (iii) above.

The Internal Market Monitor will adjust the set of composite costs to ensure a monotonically non-increasing set of bids as follows: any asset with a composite cost that is greater than the composite cost of the asset with the lowest composite cost and that has average Asset-Specific Going Forward

Costs that are less than its composite costs will have its composite cost set equal to that of the asset with the lowest composite cost. The bids of the asset with the lowest composite cost and of any assets whose composite costs are so adjusted will be considered a single non-rationable bid for use in the Forward Capacity Auction.

The Internal Market Monitor will compare a de-list bid developed using the adjusted composite costs to the de-list bid submitted by the Existing Generating Capacity Resource that is associated with a Station having Common Costs. If the Internal Market Monitor determines that the submitted de-list bid is less than or equal to the bid developed using the adjusted composite costs, then the bid shall be entered into the Forward Capacity Auction as described in Section III.13.2.3.2(b). If the Internal Market Monitor determines that the submitted de-list bid is greater than the bid developed using the adjusted composite costs or is not consistent with the submitted supporting cost data, then the Internal Market Monitor will reject the bid as described in Section III.13.1.2.3.2.1.1.

ATTACHMENT 3

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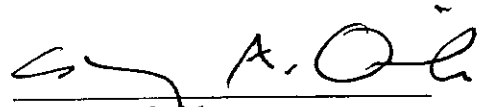
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document and attachments upon each person identified on the Commission's Service List for this Docket and in Attachment 3 of the attached transmittal letter, in the manner specified in the transmittal letter.

Dated at Washington, D.C., this 1st day of June, 2010.



Sherry A. Quirk